

Report on Examination
of the
Northwest Dentists Insurance Company
As of
December 31, 1995

Northwest Dentists Insurance Company

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Northwest Dentists Insurance Company

Seattle, Washington
January 30, 1997

The Honorable Brian Atchinson
NAIC Chairman, Financial Condition (Ex4) Subcommittee)
Department of Professional & Financial Regulation
Bureau of Insurance, State Office Building
State House, Station # 34
Augusta, Maine 04333

The Honorable Kerry Barnett, NAIC Secretary, Western Zone
Department of Consumer & Business Services
Directors Office
350 Winter Street, NE Room 200
Salem, Oregon 97310-0700

The Honorable Deborah Senn
Insurance Commissioner, State of Washington
Insurance Building, PO Box 40255
Olympia, WA 98504-0255

Dear Commissioners:

Pursuant to your instructions and in compliance with the statutes of the State of Washington, an examination was performed of the corporate affairs and financial records of

Northwest Dentists Insurance Company

hereinafter referred to as the " Company" or "NORDIC" at its home office located at 1730 Minor Avenue, Suite 1800, Seattle, Washington 98101. This report of examination is respectfully submitted showing the financial condition of the Company as of December 31, 1995.

SCOPE OF EXAMINATION

The previous examination of the Company was performed as of December 31, 1990 by examiners from the State of Washington. The current examination covered the period from January 1, 1991 through December 31, 1995 and was also conducted by examiners from Washington State. The current examination was performed concurrently with the examination of the parent company, Physicians Insurance Exchange ("PIE"). No zone examiners participated or were invited to participate in this examination.

The examination was conducted in accordance with the procedures recommended in the NAIC Financial Examiners Handbook and the financial regulation standards promulgated in the Washington Insurance Code (RCW Title 48).

Northwest Dentists Insurance Company

COMMENTS AND RECOMMENDATIONS

Bonds:

The examiners noted that the custodial agreement with U.S. Bank of Washington and Scudder, Stevens & Clark account did not provide indemnification for loss of securities as required by the NAIC.

The custodial agreement did not include any provision that the securities deposited are at all times separate and apart from the other deposits with the custodian so that at all times they may be identified as belonging solely to the company for which they are held. It is recommended that the Company revise their custodial agreement to include these safeguards.

HISTORY

On May 10, 1989, the Physicians Insurance Exchange (PIE) organized Northwest Dentists Insurance Company, a wholly owned subsidiary. A solicitation permit was issued on May 4, 1980 for that purpose. The solicitation permit authorized the sale of 12 shares of common stock of the Company at \$100,000 par value per share. NORDIC is a for-profit, domestic stock insurance company. The Company was subsequently authorized to write casualty insurance in the State of Washington on May 17, 1989. NORDIC is endorsed by the Washington Dental Association. The Company is currently authorized to write business in the states of Washington and Idaho.

The initial Capital and Surplus of the Company was acquired through the sale of 12 shares of common stock to the Physicians Insurance Exchange for \$200,000 per share. The initial capitalization resulted in Capital stock of \$1,200,000 and Additional Paid In Capital of \$1,200,000.

On February 15, 1990, the Board of Directors amended the Articles of Incorporation to increase the authorized capital stock of the Company from 12 shares to 25 shares at the same par value (\$100,000).

Additional capital stock subscriptions for 3 shares were made on April 10, 1990 at \$200,000 per share. The subscription was recorded as \$300,000 to Paid in Surplus and \$300,000 Paid In Capital.

Northwest Dentists Insurance Company

MANAGEMENT AND CONTROL

The affairs of the Northwest Dentists Insurance Company, Inc., are conducted under the direction of experienced insurance executives and a Board of Directors. A management service agreement and power of attorney was entered into by and between the Company and Washington Physicians Insurance Association, Inc. The agreement states that the Company will use the services of the attorney-in-fact (WSPIA) to act as manager to NORDIC.

The Company and its Parent maintain a joint administrative agreement and essentially have the same set of officers and directors.

Officers:

The following individuals serve as officers of the Company as of December 31, 1995.

Alfred Minoru Yamashiro	President and CEO
Jerry Earl DuPuis	Vice President
Niles Allen Cole	Vice President
Judith Joan Mix	Secretary/Treasurer

Board of Directors:

Article 3, Section 3.1 of the Company's Bylaws states the number, tenure and qualification of the members of the Board of Directors. The number of directors shall be (7) seven. Three directors shall be dentists in active practice who are members of the Washington State Dental Association (WSDA) and insured for professional liability with the Company; two directors shall be members of the Subscribers Council of the Physicians Insurance Exchange; and one director shall be a director of the Washington State Physicians Insurance Association (WSPIA); and one director shall be the President and Chief Executive Officer of the Washington State Physicians Insurance Association for the entire term of service on the Board. Not less than three-fourths of the directors must be residents of the state of Washington.

Except for the President and Chief Executive Officer of the Washington State Physicians Insurance Association, no member shall be eligible to serve on the Board for a total of more than (9) years during the director's lifetime.

Northwest Dentists Insurance Company

CORPORATE RECORDS

The Board of Directors meet every quarter but set no specific date for the meeting. Complete minutes of all meetings of the Board are recorded and kept by the Secretary. The review and examination of the minutes of the Board of Directors' meetings disclosed that proceedings were adequately documented.

AFFILIATED COMPANIES

As a wholly owned subsidiary of the Washington Physicians Insurance Exchange, all the insurance activities of the Company are conducted by the attorney-in-fact for the Exchange. Pursuant to the organizational agreement, the Company and the Exchange reimburse WSPIA for all costs incurred in the operation of the Company and the Exchange. The agreement is to continue unless terminated by either party, provided a one year written notice is given.

Association Insurance Services, Inc. (AIS):

Association Insurance Services, Inc. (AIS) does business as Physicians Insurance Agency and was established as a for-profit subsidiary of WSPIA to offer additional lines of insurance to PIE's insurance subscribers. Physicians Insurance Exchange owns all the stock, and AIS has its own Board of Directors. The current focus of the Agency is to write life insurance and group and individual disability income insurance for physicians. WSPIA staff conducts the business of AIS under a management agreement.

PHYSIS Corporation:

PHYSIS Corporation is a wholly-owned financial services subsidiary of Physicians Insurance Exchange. PHYSIS is registered with the federal Securities and Exchange Commission and with the Washington State Securities Department as an investment advisor. Although the organization was created specifically to address the changing financial needs of physicians and dentists insured by the Exchange and the Company, its services are also offered to non-insured groups and individuals. PHYSIS provides consulting services to qualified retirement plans and individual investors, including retirement plan evaluation, use of prototype retirement plan documents, assistance in establishing investment goals and guidelines, investment searches, performance monitoring and evaluation, participant educational programs, and personalized estate planning. PHYSIS receives compensation from its clients on a fee-for-service basis.

Northwest Dentists Insurance Company

INTERNAL SECURITY

The Company's internal security consists of an established conflict of interest policy, a general business recovery plan and an anti-fraud policy program established in compliance with the provisions of Chapter 48.30A, RCW, Insurance Fraud.

A disaster program has been prepared in conjunction with the Company's anti-fraud program policy.

TERRITORY AND PLAN OF OPERATION

The Company has pending applications to write business in the states of Montana and Oregon. The Company is currently authorized and licensed to write business in the states of Washington and Idaho and writes only direct business. Policies are on claims made basis and expire on a common date of December 31st. The Company operates on a direct mail, member referral basis and employs no agents.

GROWTH OF THE COMPANY

The Company has experienced moderate growth during the last five years of operation as shown by the following data compiled from its financial statements.

Year	Direct Premiums Written	Admitted Assets	Capital & Surplus
1991	\$1,244,500	\$5,052,300	\$ 3, 245,000
1992	1,638,700	6,294,000	3, 331,800
1993	1,941,000	7,136,400	3,658,000
1994	2,085,000	7,834,100	3,873,400
1995	2,263,000	8,745,846	4,281,000

Northwest Dentists Insurance Company

REINSURANCE

The Company's reinsurance agreements in effect as of December 31, 1995 are summarized as follows:

Reinsurance Ceded:

NORDIC has entered into reinsurance agreements which provide the following coverages:

Type of Contract	Retention Level	Reinsurance Limits
First Excess of Loss	\$225,000	\$3,000,000 Ultimate Net Loss Each and Every Loss
Combined Risk and Contingent Excess of Loss	\$2,000,000	\$3,000,000 Ultimate Net Loss Each and Every Loss Each Insured
Second Contingent Excess of Loss	\$6,000,000	\$9,000,000 Ultimate of Loss Each and Every Loss
70% Quota Share BOP	30% Each and 70% of Variance Level Every Policy	

The examiners' review of all reinsurance agreements in effect as of December 31, 1995, disclosed that NORDIC has complied with the reinsurance requirements of RCW 48.12.160. Each of the agreements reviewed contained the necessary insolvency clause.

Recoveries from reinsurer were \$46,631 on paid losses, \$41,000 on unpaid losses and \$520,000 on incurred but not reported losses.

Northwest Dentists Insurance Company

ACCOUNTS AND RECORDS

The accounts and records of the Company are maintained on electronic data processing equipment consisting of a mainframe computer, IBM compatible personal computers and PS/2 computer terminals. The Company developed software packages in house for maintaining the policy master file, billing and premium accounting, claim files and the loss and loss adjustment expense reserves and claim payments associated with these files. The Company uses commercial software packages to maintain the General Ledger and Accounts Payable System.

The system software, programs, libraries and data files are stored in the computer room and are safeguarded and available only to IS (information System) personnel.

The examiners noted the Company's custodial agreement with U.S. Bank of Washington and Scudder, Stevens & Clark did not include indemnification provisions for loss of securities.

FINANCIAL STATEMENTS

NORTHWEST DENTISTS INSURANCE COMPANY

BALANCE SHEET
AS OF DECEMBER 31, 1995

	BALANCE PER COMPANY	Notes	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
<u>ASSETS</u>				
Bonds	\$ 6,182,407			\$ 6,182,407
Stocks:				
Preferred stocks	518,125			518,125
Cash on hand and on deposit	42,822			42,822
Short-term investments	1,568,543			1,568,543
Agents' balances or uncollected premiums:				
Premiums and agents' balances in course of collection	4,100			4,100
Reinsurance recoverables on loss and loss adjustment expense payments	46,631			46,631
Interest, dividends and real estate income due and accrued	114,130			114,130
Aggregate write-ins for other than invested assets	269,088			269,088
Total Assets	<u>\$ 8,745,846</u>		<u>\$ -</u>	<u>\$ 8,745,846</u>
<u>LIABILITIES</u>				
Losses	\$ 2,399,256			\$ 2,399,256
Loss adjustment expenses	748,728			748,728
Other expenses	148,226			148,226
Taxes, licenses and fees (excluding federal and foreign income taxes)	5,711			5,711
Federal and foreign income taxes (excluding deferred taxes)	204,490			204,490
Dividends declared and unpaid:				
Policyholders	129,537			129,537
Payable to parent, subsidiaries and affiliates	148,832			148,832
Aggregate write-ins for liabilities	680,136			680,136
Total Liabilities	<u>4,464,916</u>		<u>-</u>	<u>4,464,916</u>
<u>SURPLUS AND OTHER FUNDS</u>				
Common capital stock	1,500,000			1,500,000
Gross paid in and contributed surplus	1,500,000			1,500,000
Unassigned funds (surplus)	1,280,930			1,280,930
Total Surplus as Regards Policyholders	<u>4,280,930</u>		<u>-</u>	<u>4,280,930</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 8,745,846</u>		<u>\$ -</u>	<u>\$ 8,745,846</u>

NORTHWEST DENTISTS INSURANCE COMPANY

STATEMENT OF INCOME FOR YEAR ENDED DECEMBER 31, 1995

	BALANCE PER COMPANY	Notes	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
<u>UNDERWRITING INCOME</u>				
Premiums earned	\$ 1,661,968			\$ 1,661,968
DEDUCTIONS				
Losses Incurred	450,438			450,438
Loss expenses incurred	549,898			549,898
Other underwriting expenses incurred	343,447			343,447
Total Underwriting Deductions	1,343,783		-	1,343,783
Net Underwriting Gain or (loss)	318,185		-	318,185
<u>INVESTMENT INCOME</u>				
Net investment income earned	412,096			412,096
Net realized capital gains or (losses)	(1,079)			(1,079)
Net Investment Gain or (Loss)	411,017		-	411,017
<u>OTHER INCOME</u>				
Net gain or (loss) from agents' or premium balances charged off	(148)			(148)
Finance and service charges not included in premiums	10,844			10,844
Aggregate write-ins for miscellaneous income	-			-
Total Other Income	10,696		-	10,696
Net income before dividends to policyholders and before federal and foreign income taxes	739,898		-	739,898
Dividends to policyholders	127,950			127,950
Net income, after dividends to policyholders but before federal and foreign income taxes	611,948		-	611,948
Federal and foreign income taxes incurred	204,490			204,490
Net Income	\$ 407,458		\$ -	\$ 407,458
<u>CAPITAL AND SURPLUS ACCOUNT</u>				
Surplus as regards policyholders, December 31 previous year	\$ 3,873,472			\$ 3,873,472
<u>GAINS AND (LOSSES) IN SURPLUS</u>				
Net income	407,458			407,458
Net unrealized capital gains or (losses)	-			-
Change in non-admitted assets	-			-
Change in provision for reinsurance	-			-
Dividends to stockholders	-			-
Aggregate write-ins for gains and losses in surplus	-			-
Changes in Surplus as Regards Policyholders for the Year	407,458		-	407,458
Surplus as Regards Policyholders, December 31 Current Year	\$ 4,280,930		\$ -	\$ 4,280,930

NORTHWEST DENTISTS INSURANCE COMPANY
COMPARATIVE CAPITAL AND SURPLUS ACCOUNT
AS OF DECEMBER 31,

	<u>1995 *</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>
<u>CAPITAL AND SURPLUS ACCOUNT</u>					
Surplus as regards policyholders, December 31 previous year	\$ 3,873,472	\$ 3,658,059	\$ 3,331,802	\$ 3,244,549	\$ 3,043,058
<u>GAINS AND (LOSSES) IN SURPLUS</u>					
Net income	407,458	510,954	244,066	135,777	216,106
Net unrealized capital gains or (losses)	-	-	-	-	-
Change in non-admitted assets	-	2,459	5,952	5,953	5,952
Change in provision for reinsurance	-	2,000	239	21,523	(20,567)
Change in excess of statutory reserves over statement reserves	-	-	76,000	(76,000)	-
Dividends to stockholders	-	(300,000)	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-	-	-
Changes in Surplus as Regards Policyholders for the Year	407,458	215,413	326,257	87,253	201,491
Surplus as Regards Policyholders, December 31 Current Year	<u>\$ 4,280,930</u>	<u>\$ 3,873,472</u>	<u>\$ 3,658,059</u>	<u>\$ 3,331,802</u>	<u>\$ 3,244,549</u>

* As adjusted by examination.

Northwest Dentists Insurance Company

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of Presentation:

The financial statement of Northwest Dentists Insurance Company has been prepared in conformity with accounting practices and procedures prescribed by the National Association of Insurance Commissioner (NAIC) and the State of Washington.

2. Basis of Valuation of Invested Assets:

a. Asset values are stated as follows:

Bonds not backed by loans are carried at amortized cost using the effective yield (scientific) method; loan backed bonds and structured securities are reported at cost using the pro rata method; preferred stock is carried at cost; common stock is carried at market. The Company has no investment in real estate, mortgage loans or derivative instruments.

3. Federal Income Tax Allocation:

a. The Company's Federal Income Tax return is consolidated with its parent, Physicians Insurance Exchange. The method of allocation is subject to written agreement approved by the Board of Directors. Allocation is based upon separate return calculations with current credit for net losses.

b. The amount of Federal Income taxes incurred and available for recoupment in the event of future net losses is: Current year \$ 204,490; first preceding year \$ 216,512; second preceding year \$162,870

c. No net losses are available to be carried forward to future years.

4. Information Concerning Parent, Subsidiaries, and Affiliates:

a. The Company is wholly-owned by Physicians Insurance Exchange, a reciprocal domiciled in the State of Washington.

Northwest Dentists Insurance Company

5. Deferred Compensation and Retirement Plans:

a. The Company has no employees ,and, therefore, it has no Deferred Compensation and Retirement Plans.

6. Unpaid Losses and Loss Adjustment Expenses:

The reserves carried by the Company for these liabilities were \$2,399,256 and \$748,728, respectively, as of December 31, 1995.

The Company's Schedule P data was analyzed by the casualty actuary employed by the Commissioner's Office. The actuary obtained additional information by interviewing several Company employees. He also reviewed a report prepared for the Company by its consulting actuarial firm, Tillinghast.

Based on the actuary's analysis, the Company's reserves for unpaid losses and loss adjustment expenses are within a reasonable range. Therefore, the reserves are accepted for this report as shown on the 1995 Annual Statement.

Northwest Dentists Insurance Company

Acknowledgment

The examiners hereby express their gratitude and thanks for the cooperation extended to them by officers and employees of the Company during the examination.

In addition, Peter M. Mendoza, CFE, CIE, Examiner-In-Charge, John Jacobson, AFE, Kendy Obviebo, Insurance Examiners, and Lee Barclay, Property Casualty Actuary, for the Washington Insurance Commissioner's Office, participated in the examination and preparation of the report of examination.

Northwest Dentists Insurance Company

Northwest Dentists Insurance Company

State of Washington)
)ss
County of King)

Peter M. Mendoza, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of Northwest Dentists Insurance Company was performed in a manner consistent with the standards and procedures required or prescribed by the Washington Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

Peter M. Mendoza, CFE, CIE
Examiner -In-Charge
State of Washington

Subscribed and sworn to before me this _____ day of _____ 1997.

Colleen Jansen, Notary Public in
and for the State of Washington
Residing at Seattle, Washington.